

A political subdivision of a State issued industrial development bonds within the meaning of section 103(c)(2) of the Internal Revenue Code of 1954 in the amount of \$4,000,000 for the purpose of financing facilities for use by an industrial corporation. The political subdivision elected to apply the provisions of section 103(c)(6)(D) to the bond issue in order that it would qualify as a \$5,000,000 exempt small issue. All of the stock of the industrial corporation is owned by a charitable foundation trust which is an organization described in section 501(c)(3) and exempt from tax under section 501(a).

The trust, the industrial corporation, and the facilities financed with the bond proceeds are located within the boundaries of the same incorporated municipality. None of the trust's assets have been or will be used in connection with the operations of the industrial corporation, and none of the capital expenditures by the trust have been or will be incurred with respect to the operations of the industrial corporation. The trust has not derived and will not derive any 'unrelated business taxable income' within the meaning of section 512 of the Code.

Held, although the trust and the industrial corporation are related persons within the meaning of section 267(b)(8) of the Code, none of the capital expenditures made by the trust with respect to its exempt activities in the incorporated municipality within three years before and after the date of the issuance of the bonds will be considered 'capital expenditures' within the meaning of section 103(c)(6)(D).